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201608Z Jul 05

C O N F I D E N T I A L SECTION 01 OF 02 ANKARA 004214

SIPDIS

SENSITIVE

TREASURY FOR INTERNATIONAL AFFAIRS - SDONOVAN, AMARCUS,  
MMILLS AND CPLANTIER  
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E.O. 12958: DECL: 07/19/2010

TAGS: [EFIN](#) [EAID](#) [PREL](#) [IZ](#) [TU](#)

SUBJECT: DEMARCHE ON IRAQ DEBT AND ASSISTANCE

REF: A. STATE 127710

[1](#)B. STATE 125850

[1](#)C. ANKARA

Classified By: Charge d'Affaires Nancy McEldowney, for reasons 1.4(b) and (d).

[1](#)1. (C) Summary: On Iraq debt, Turkish MFA officials again confirmed they have not been pressed on the debt issue by the ITG. The MFA officials made very clear that they want to negotiate this issue directly with ITG officials, not outside advisors, although they agreed to meet with the advisors. On the substance of the issue, Turkish officials, unaccustomed to participating in international debt forgiveness, do not seem to understand that they are out of line with international precedent of comparative treatment with Paris Club terms. Though it is a separate issue, they point to Turkish firms willingness to finance oil shipments to SOMO despite payment arrears. In order to make progress on this issue, post recommends greater ITG engagement with the GOT. On assistance, the GOT says it has disbursed \$7.5 million of its \$50 million pledge. End Summary.

Debt Demarche:

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[1](#)2. (C) Charge delivered ref b demarche to MFA Deputy U/S for Economic Affairs Ender Arat on July 12 and urged that the GOT enter into a dialogue with the ITG on this issue. In reply, Arat emphasized that Turkey can wait to resolve this issue, and has no intention of pressing for any payments. Emphasizing that Turkey wants to resolve the debt issue bilaterally with Iraq, Arat said Turkey is open to working with the Iraqis on a long repayment period, i.e. rescheduling. Note: This tracks with other GOT official comments that they would consider rescheduling, but not forgiveness. End Note. Arat pointed out Turkish support in the form of supplying food and basic supplies to Iraq. Despite the SOMO arrears problem, Arat said both Turkish state companies and private companies had shipped fuel to Iraq, in effect providing financing (ref c).

[1](#)3. (C) Arat confirmed what other GOT officials had told us: the ITG has only raised the debt issue once, when PM Jafari and Finance Minister Allawi were here in May. According to Arat, Finance Minister Unakitan replied that the GOT preferred to settle the issue bilaterally after the restoration of stability in Iraq. Arat said Unakitan went on to float the possibility of linking a debt settlement to other issues, such as the Turkish state oil company (TPAO) exploring or running a production facility in Iraq. Arat threw out other potential linkages, such as using the debt in return for other projects such as construction of a second border gate: "We must be creative." Arat said that among Iraq's creditors Turkey's situation was most akin to that of Brazil, in that Turkey was not in the Paris Club. Note: Though Arat did not say it, the GOT may be drawing a parallel to Brazil because it, like Turkey, is a middle-income country with its own debt problems. End Note. Arat also said Turkey wants to show that it can manage its finances in the run-up to the October 3 start of its EU accession negotiations.

[1](#)4. (SBU) The Charge responded that, while recognizing Turkey's economic challenges, all the creditors need to work together to do what we can to help Iraq. Adding that there is a widespread perception that Turkey plays a special role as Iraq's biggest neighbor, and its only NATO neighbor, she pointed out that the Turkish private sector stands to gain from Iraq's stabilization: Saying that a democratic Iraq would have no better friend than Turkey, she said everyone would look to Turkey to do its part.

[1](#)5. (C) When pressed on the ITG's request that the GOT receive the outside advisors, Arat said the GOT wanted to deal directly with Iraqi officials. Arat later emphasized this point to econoff at a reception, as did Deputy Director General Mehmet Gucuk. Nevertheless, when pressed as to

whether MFA officials would at least receive the advisors, Arat grudgingly agreed to have either Gucuk or Ambassador Koray Targay receive them, but not to negotiate with them.

16. (C) Econoff also followed up with Turkish Treasury's Director General for International Affairs, Memduh Akcay. Akcay confirmed that Turkish Treasury has not been brought into GOT deliberations on the Iraq Debt issue, although Treasury has participated in Paris Club negotiations in the past, and despite Econ Counselor having raised the issue with the Treasury Under Secretary. Econoff asked Akcay if he would receive the Iraqi advisors but Akcay was not receptive, not having been given any responsibility for the issue yet. Akcay also confirmed that Turkish law and budgetary rules do not allow marking to market of the budgetary cost of forgiving debt, such that every dollar of debt forgiven would be a dollar of budgetary appropriation. Akcay noted that the \$1.6 billion dollars of Iraqi debt was probably much greater in relation to Turkey's GNP (0.5%) than other creditors' claims against Iraq.

Assistance:

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17. (SBU) The Charge also raised the assistance demarche (ref a) and Arat said the Turkish delegation at the meeting in Jordan would be led by MFA Coordinator for Iraqi Reconstruction, Ambassador Targay. In the subsequent, lower-level meeting, Gucuk and his subordinate Sedef Yavuzalp went into more detail. Regarding Turkey's pledge to the IRFFI, Gucuk reported that Turkey on July 1 had deposited its \$200,000 pledge for the UNDP Iraq Trust Fund. He added that the GOT was moving forward with its other pledge of \$1 million of the World Bank Trust Fund and hopes to complete all its internal approvals in the coming weeks. Yavuzalp confirmed that Turkey has disbursed \$7.5 million of its total pledge of \$50 million.

Comment:

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18. (C) In many ways, the GOT's approach to the Iraq debt issue is a "perfect storm." While we believe the MFA sincerely wants to help stabilize Iraq, the MFA officials do not realize that they are badly out of step with international practice by only being willing to consider a rescheduling rather than treatment comparable to the Paris Club's, i.e. 80% forgiveness. Although Turkey has participated in Paris Club negotiations as a creditor, it has not--to post's knowledge--participated in any that required forgiveness rather than rescheduling. Moreover, Turkish officials across the board think of Turkey as a highly-indebted country with its own economic problems. There is also an organizational problem: MFA, which can see Turkey's interest in Iraq's stabilization, has negligible clout on--or understanding of--financial issues. Finance Minister Unakitan, who is keen to be the counterpart of other finance ministers, such as Allawi, is really responsible for budget and tax issues, and has no experience with international debt policy. Minister of Economy Babacan, and Turkish Treasury, which reports to him, is best placed to handle the financial issues. Babacan and Treasury are more likely to understand--and care about--international practice, since Treasury has participated in Paris Club negotiations and is the counterpart of the U.S. Treasury and IMF on macro policy and debt.

19. (C) Finally, and most critically, the ITG has yet to press the GOT, other than Allawi briefly raising it in May and Deputy Finance Minister Azez Hassan's April 19 letter to Foreign Minister Gul. The Iraqi Ambassador in Ankara told the Charge he has not raised--and will not raise--the issue with the GOT, leaving it to his commercial counselor. The Iraqi Ambassador and commercial counselor subsequently told PolMilOff that Baghdad has provided them no/no information or instructions with which to approach the Turks; they professed not even to know the amount of debt Turkey holds. The GOT, whether or not it understands international debt treatments, is unlikely to do anything on this issue absent high-level ITG engagement.

110. (C) On the U.S. side, Washington addressees may wish to consider a call or letter from a senior U.S. Treasury official to Minister Babacan in order to get Babacan and Turkish Treasury engaged on the issue. The Treasury-to-Babacan or Treasury-to-Treasury channel will be more effective once the ITG has exerted more pressure.

Baghdad Minimize Considered.  
MCELDOWNEY